

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Orchard Lake Village	County Oakland
Audit Date June 30, 2004	Opinion Date January 28, 2005	Date Accountant Report Submitted to State: January 31, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

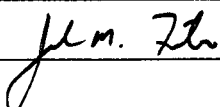
Certified Public Accountant (Firm Name) Janz & Knight, P.L.C.			
Street Address 300 East Long Lake Road, Suite 360	City Bloomfield Hills	State MI	ZIP 48304-2377
Accountant Signature 		Date 1/31/05	

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JANZ & KNIGHT, P.L.C.

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INDEPENDENT AUDITOR'S REPORT

Members of the Council
City of Orchard Lake Village, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Orchard Lake Village, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Orchard Lake Village, Michigan, management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Orchard Lake Village, Michigan, as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note B, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of June 30, 2004.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Orchard Lake Village, Michigan basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Very truly yours,

Janz & Knight, P.L.C.

Certified Public Accountants

Bloomfield Hills, Michigan

January 28, 2005

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

June 30, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Orchard Lake Village's (the City) management's discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial position (its ability to address the next and subsequent years' challenges), identify significant variances from the approved budget, and identify individual fund issues or concerns.

Using this Annual Report

The City's annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than government-wide financial statements.

Government-Wide Financial Statements

The government-wide financial statements consist of the Statement of Net Assets and Statement of Activities. They are designed to be corporate-like in that all governmental and business-type funds are consolidated into columns which add to a total for the primary government. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are also taken into account regardless of timing of cash being paid or received.

The City as a Whole

Net Assets - The City's combined net assets were \$12,617,811 at the close of the year ended June 30, 2004. This represents an increase of \$708,071 or a 6% increase from a year ago. As we look at governmental activities separately from the business-type activities, we can see that the governmental activities net assets increased \$104,676. This increase was primarily the result of assets being capitalized that will be expensed as depreciation over their useful lives and principal paid on long term debt. The business-type activity had an increase of \$603,395 in net assets. A large part of this increase was from sewer capital and debt charges for sewer construction. The revenue from these assessments are recognized in the current year but the cost will be spread over the life of the sewer system as depreciation.

Since this is the first year the City has presented government-wide financial statements, comparisons to the prior year have not been presented. In future years, when prior year information is available, a comparative analysis of government-wide data will be included.

The following table reflects the condensed Statement of Net Assets for the year ended June 30, 2004:

Table 1
Statement of Net Assets

	Governmental Activities	Business-Type Activity	Total
ASSETS			
Current and other assets	\$ 2,059,468	\$ 3,954,754	\$ 6,014,222
Capital assets	5,753,417	17,795,401	23,548,818
Total assets	\$ 7,812,885	\$ 21,750,155	\$29,563,041
LIABILITIES AND NET ASSETS			
Current and other liabilities	\$ 302,966	\$ 141,392	\$ 444,358
Long term debt outstanding	2,585,000	13,915,871	16,500,871
Total liabilities	\$ 2,887,966	\$ 14,057,263	\$16,945,229
Net assets:			
Invested in capital assets, net of related debt	3,168,417	3,879,530	7,047,947
Restricted	(12,478)	209,195	196,717
Unrestricted	1,768,980	3,604,167	5,373,147
Total net assets	\$ 4,924,919	\$ 7,692,892	\$12,617,811
Total liabilities and net assets	\$ 7,812,885	\$ 21,750,155	\$29,563,041

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

June 30, 2004

Unrestricted net assets are net assets that can be used to finance day to day operations. Restricted net assets of the City totaled \$196,717. These net assets have limitations on their use that were imposed by restrictions such as enabling legislation, grant or bond covenants. The investment in capital assets represents the City's capital assets that provide services to citizens; accordingly, these assets are not available for future spending.

The following table shows the changes in net assets for the year ended June 30, 2004:

Table 2
Changes in Net Assets

	Governmental Activities	Business-Type Activity	Total
Program Revenue:			
Charges for services	\$ 205,630	\$ 768,706	\$ 974,336
Operating grants and contributions	170,885		170,885
Capital grants and contributions	92,016	374,473	466,489
General Revenue:			
Property taxes	1,915,078	1,062,107	2,977,185
State shared revenue	187,184		187,184
Interest income	27,264	135,697	162,961
Franchise fees	32,993		32,993
Sale of fixed assets	3,778		3,778
Total revenue	\$ 2,634,828	\$ 2,340,983	\$ 4,975,811
Program Expenses:			
General government	425,595		425,595
Public safety	1,210,927		1,210,927
Public works	640,906		640,906
Community and economic development	8,562		8,562
Health and welfare	8,000		8,000
Recreation and culture	114,432		114,432
Interest on long term debt	121,730		121,730
Sewer		1,737,588	1,737,588
Total program expenses	\$ 2,530,152	\$ 1,737,588	\$ 4,267,740
Increase (decrease) in net assets	\$ 104,676	\$ 603,395	\$ 708,071
Net assets - July 1, 2003	4,820,243	7,089,497	11,909,740
Net assets - June 30, 2004	\$ 4,924,919	\$ 7,692,892	\$12,617,811

As shown in the above table total revenues were approximately \$5 million, of which 60% was obtained from property taxes, 20% for fees charged for services and 4% for state shared revenues. Total expenses were approximately \$4.2 million, of which 28% was for public safety, 15% for public works and 41% for sewer.

Business Type Activities

The City's business-type activities consists of the Sewer and Water Fund. The City provides sewer and water service to approximately 800 water units and approximately 1,100 sewer units.

The City Funds

The analysis of the City's major funds begins on page 9, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2004 include the General Fund, Major Road Fund, Local Road Fund, and the Debt Service Fund.

The General Fund is the main operating fund of the City. Total revenues for the year were approximately \$1,961,000. Of this revenue, 79% was from property taxes, and 10% was from state shared revenues. Total expenditures for the year were approximately \$1,994,000. Of these expenditures, 40% was for public safety, 22% was for public works, and 17% was for general government. At June 30, 2004 the unreserved fund balance of \$985,148 represented 49% of the total General Fund expenditures for the year.

The Major Road Fund accounts for the repairs, maintenance and construction of all City major streets. The fund balance of this fund at June 30, 2004 was \$150,108.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

June 30, 2004

The City Funds (continued)

The Local Road Fund accounts for repairs, maintenance and construction of all City local streets. The fund balance of this fund at June 30, 2004 was \$158,157.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. The fund balance of this fund at June 30, 2004 was \$18,475.

General Fund Budgetary Highlights

Over the course of the year, the City Council amended the budget to take into account events during the year. State revenue sharing was amended to reflect reduced distributions from the State of Michigan. Cable T.V. revenue and expenditures were amended to reflect projected increases. Interest income was reduced to reflect lower interest rates. Charges for services were amended to reflect additional Green Vision charges. City Council expenditures were amended to reflect additional repairs and maintenance, sanctuary, Green Vision expenses, engineering fees, retirement plan contributions and, capital outlay. Police training and insurance were amended to reflect lower expenditures.

Public works expenditures were \$163,070 above budgeted amounts. Most other departments were in line with budgeted amounts. Actual revenues exceeded budgeted amount by \$96,214.

Capital Asset and Debt Administration

At the end of June 30, 2004, the City had \$23,419,303 invested in a broad range of capital assets (net of accumulated depreciation), including buildings, equipment, roads, and sewer and water lines.

Major expenditures for capital assets during the year included the following:

1. Road improvements - \$40,549;
2. Police vehicle - \$19,723;
3. Highway vehicle - \$61,877.

Long-Term Debt

The City's total indebtedness at June 30, 2004 was \$16,500,871. Two debts were refunded with one new debt during the current fiscal year. The City maintains an "A" rating from Standard & Poor's. Additional information on the City's long-term debt can be found in Note G.

Economic Factors and Next Year's Budgets and Rates

The City's 2005 budget was prepared using various economic factors as follows:

Revenues:

Property tax rates for 2005 are as follows:

	2005 Mills Levied	2004 Mills Levied
Operations:		
General operations	4.50	4.50
Library	0.30	0.30
Debt service:		
Water	0.90	0.90
Sewer	2.44	2.50
Sanctuary	0.88	0.90

Property tax revenues are expected to increase slightly. This is the result of expected increases in taxable value within the City. Other general revenues expected to increase include interest and grant income.

Expenditures

Payroll expenses are expected to increase to reflect approved wage increases. Employee benefits (health insurance and retirement contributions) are expected to increase to reflect premium increases.

The 2005 General Fund budget expects a deficit of approximately \$81,000. The projected General Fund's fund balance at June 30, 2005 is approximately \$913,300 which represents approximately 46% of the General Fund expenditures for the year.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

June 30, 2004

Request for Information

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions or concerns about this report or need additional information, contact the City Office, at the City of Orchard Lake Village, 3955 Orchard Lake Road, Orchard Lake, Michigan 48323.

2015 / 2016 BUDGET PUBLIC CERTIFIED PUBLIC

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2004

	Governmental Activities	Business-type Activity	Total
ASSETS			
Cash and cash equivalents	\$ 1,925,483	\$ 1,773,270	\$ 3,698,753
Receivables:			
Trade		271,989	271,989
Special assessments		1,649,953	1,649,953
Interest		35,700	35,700
Other	14,426		14,426
Agency Funds	172		172
Due from other governments	116,796	226,433	343,229
Internal balances	2,591	(2,591)	
Capital assets, net:			
Depreciable	567,151	17,665,886	18,233,037
Non-depreciable	5,186,266		5,186,266
Bond issuance costs, net		129,515	129,515
Total assets	<u>\$ 7,812,885</u>	<u>\$ 21,750,155</u>	<u>\$ 29,563,041</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable and other liabilities	\$ 120,052	\$ 60,037	\$ 180,089
Accrued interest	18,145	81,355	99,500
Due to other governments	18,761		18,761
Compensated absences	146,008		146,008
Noncurrent liabilities:			
Due within one year	200,000	1,292,461	1,492,461
Due in more than one year	2,385,000	12,623,410	15,008,410
Total liabilities	<u>\$ 2,887,966</u>	<u>\$ 14,057,263</u>	<u>\$ 16,945,229</u>
Net assets:			
Invested in capital assets, net of related debt	3,168,417	3,879,530	7,047,947
Restricted for:			
Improvements		209,196	209,196
Debt service	330		330
Capital projects	(21,972)		(21,972)
Other	9,164		9,164
Unrestricted	1,768,980	3,604,167	5,373,147
Total net assets	<u>\$ 4,924,919</u>	<u>\$ 7,692,892</u>	<u>\$ 12,617,811</u>
Total liabilities and net assets	<u>\$ 7,812,885</u>	<u>\$ 21,750,155</u>	<u>\$ 29,563,041</u>

The attached notes are an integral part of the financial statements.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 425,599	\$ 3,544	\$	\$ 3,582
Public safety.	1,210,927	150,231	1,769	
Community and economic development	8,562			
Public works	640,906	51,855	154,166	88,434
Health and welfare	8,000		8,000	
Recreation and culture	114,432		6,950	
Interest on long term debt	121,730			
Total governmental activities.	\$ 2,530,154	\$ 205,630	\$ 170,885	\$ 92,016
Business-type activity:				
Water and sewer fund	1,737,588	768,706		374,473
Total primary government	\$ 4,267,743	\$ 974,336	\$ 170,885	\$ 466,489

General revenues:

Property taxes	
State shared revenues	
Interest income	
Franchise fees	
Special item - sale of fixed assets	

Total general revenues and special items

Changes in net assets

Net assets - July 1, 2003 (restated)

Net assets - June 30, 2004

The attached notes are an integral part of the financial statements.

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-type Activity	Total
\$ (418,473)	\$	\$ (418,473)
(1,058,926)		(1,058,926)
(8,562)		(8,562)
(346,450)		(346,450)
-		-
(107,482)		(107,482)
(121,730)		(121,730)
\$ (2,061,622)	\$ -	\$ (2,061,622)
	(594,410)	(594,410)
\$ (2,061,622)	\$ (594,410)	\$ (2,656,032)
1,915,078	1,062,107	2,977,185
187,184		187,184
27,264	135,698	162,962
32,993		32,993
3,778		3,778
\$ 2,166,298	\$ 1,197,805	\$ 3,364,103
\$ 104,676	\$ 603,395	\$ 708,071
4,820,243	7,089,497	11,909,740
\$ 4,924,919	\$ 7,692,892	\$ 12,617,811

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2004

	General	Major Road Fund	Local Road Fund	Debt Service Fund
ASSETS				
Cash and cash equivalents	\$ 880,114	\$ 151,251	\$ 167,027	\$ 20,102
Receivables - other	12,289			
Due from other funds	81,770		132	
Due from other governments	116,796			
Total assets	\$ 1,090,969	\$ 151,251	\$ 167,159	\$ 20,102
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and other liabilities	\$ 90,976	\$ 540	\$ 3,897	\$
Due to other funds	5,681	603	5,106	1,627
Due to other governments				
Total liabilities	\$ 96,657	\$ 1,143	\$ 9,003	\$ 1,627
Fund balances:				
Reserved:				
Debt service				18,475
Other	9,164			
Unreserved, reported in:				
General Fund	985,148			
Special Revenue Funds		150,108	158,157	
Capital Project Funds				
Total fund balances	\$ 994,312	\$ 150,108	\$ 158,157	\$ 18,475
Total liabilities and fund balances	\$ 1,090,969	\$ 151,251	\$ 167,159	\$ 20,102

The attached notes are an integral part of the financial statements.

Non-Major Governmental Funds	Total Governmental Funds
\$ 585,465	\$ 1,803,959
114	12,289
	82,016
	116,796
<u>\$ 585,579</u>	<u>\$ 2,015,060</u>

\$ 22,353	\$ 117,766
74,006	87,021
18,761	18,761
<u>\$ 115,119</u>	<u>\$ 223,549</u>

	18,475
	9,164
	985,148
492,431	800,696
(21,972)	(21,972)
<u>\$ 470,459</u>	<u>\$ 1,791,511</u>
<u>\$ 585,579</u>	<u>\$ 2,015,060</u>

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2004

Total governmental fund balances. \$ 1,791,511

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in government activities are not financial
resources, and are not reported in the governmental funds:

Governmental capital assets	\$ 6,043,349	
Less accumulated depreciation	<u>(385,714)</u>	5,657,635

Long-term liabilities, including compensated absences, are not
due and payable in the current period and are not reported in
the funds including related accrued interest. (2,749,153)

Internal service funds are used by management to charge the costs
of certain activities to individual funds. The assets and
liabilities of internal service funds are included in the
statement of net assets 224,926

Net assets of governmental activities \$ 4,924,919

JANZ & KNIGHT, P.L.C. CERTIFIED PUBLIC ACCOUNTANTS

The attached notes are an integral part of the financial statements.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2004

	General	Major Road Fund	Local Road Fund	Debt Service Fund
Revenues:				
Taxes	\$ 1,540,217	\$	\$	\$ 281,146
Licenses and permits	37,162			
Federal sources				
State sources	192,535	86,632	66,321	
Charges for services	22,121			
Fines and forfeitures	24,864			
Interest and rents	18,059	1,306	671	771
Other	125,981		1,212	
Total revenues	\$ 1,960,939	\$ 87,938	\$ 68,204	\$ 281,917
Expenditures:				
Current:				
General government	329,006			
Public safety	797,141			
Community and economic development	7,962			
Public works	435,851	37,501	91,349	
Health and welfare				
Recreation and culture	16,184			
Other	383,363			
Capital outlay	24,447			
Debt service:				
Principal payments				165,000
Interest and fiscal charges				122,888
Total expenditures	\$ 1,993,953	\$ 37,501	\$ 91,349	\$ 287,888
Excess of revenues over (under) expenditures	\$ (33,015)	\$ 50,437	\$ (23,145)	\$ (5,971)
Other financing sources (uses):				
Operating transfers in	77,893		103,500	
Operating transfers out	(78,000)	(25,500)		
Total other financing sources (uses)	\$ (108)	\$ (25,500)	\$ 103,500	\$
Excess of revenues and other sources over (under) expenditures and other uses	\$ (33,122)	\$ 24,937	\$ 80,356	\$ (5,971)
Fund balance - July 1, 2003	1,027,434	125,171	77,801	24,446
Fund balance - June 30, 2004	\$ 994,312	\$ 150,108	\$ 158,157	\$ 18,475

The attached notes are an integral part of the financial statements.

Non-Major Governmental Funds	Total Governmental Funds
\$ 93,715	\$ 1,915,078
93,996	131,158
8,000	8,000
	345,489
	22,121
	24,864
5,220	26,027
29,734	156,927
<u>\$ 230,666</u>	<u>\$ 2,629,664</u>
	329,006
150,491	947,632
	7,962
48,970	613,671
8,000	8,000
93,715	109,900
	383,363
	24,447
	165,000
	<u>122,888</u>
<u>\$ 301,176</u>	<u>\$ 2,711,867</u>
\$ (70,510)	\$ (82,202)
	181,393
(77,893)	(181,393)
<u>\$ (77,893)</u>	<u>\$ -</u>
\$ (148,403)	\$ (82,203)
618,862	1,873,714
<u>\$ 470,459</u>	<u>\$ 1,791,511</u>

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2004

Net change in fund balances - total governmental fund.		\$	(82,203)
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:			
Expenditures for capital assets.	\$	67,730	
Current year depreciation.		(22,572)	45,158
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).			165,000
Accrued interest is recorded in the statement of activities.			1,158
Increase in accumulated employee vacation and sick pay are recorded when earned in the statement of activity.			(8,731)
Internal service fund activity is not reported as part of governmental funds; transactions with organizations outside governmental funds are included in the statement of activities			(15,706)
Change in net assets of governmental activities.	\$		<u>104,676</u>

JANET C. KNIGHT, I.L.C., CERTIFIED PUBLIC ACCOUNTANT

The attached notes are an integral part of the financial statements.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2004

	Business-type Activity- Water and Sewer Fund	Governmental Activity- Internal Service Fund
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,773,270	\$ 121,524
Receivables:		
Trade	271,989	
Special assessments	1,649,953	
Interest	35,700	
Other		2,137
Due from other funds		7,768
Due from other governments	226,433	
Total current assets	\$ 3,957,346	\$ 131,429
Noncurrent assets:		
Capital assets, net	17,665,886	95,782
Other assets:		
Bond issuance costs, net	129,515	
Total assets	\$ 21,752,746	\$ 227,211
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and other liabilities	\$ 60,037	\$ 2,286
Accrued interest	81,355	
Due to other funds	2,591	
Current portion of long term debt	1,292,461	
Total current liabilities	\$ 1,436,444	\$ 2,286
Noncurrent liabilities:		
Bond payable	12,623,410	
Total liabilities	\$ 14,059,854	\$ 2,286
Net assets:		
Invested in capital assets, net of related debt	3,879,530	95,782
Restricted for:		
Improvements	209,196	
Unrestricted	3,604,167	129,143
Total net assets	\$ 7,692,892	\$ 224,926
Total liabilities and net assets	\$ 21,752,746	\$ 227,211

The attached notes are an integral part of the financial statements.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS

For the Year Ended June 30, 2004

	Business-type Activity- Water and Sewer Fund	Governmental Activity- Internal Service Fund
Operating revenue:		
Water and sewer sales	\$ 734,769	\$
Water and sewer penalties	12,147	
Permit fees - operating	7,834	
Water meter maintenance - operating	11,363	
Equipment rental		91,416
Miscellaneous income	2,593	2,829
Total operating revenue	\$ 768,706	\$ 94,246
Operating expenses:		
Salaries and benefits		18,412
Payroll taxes		1,409
Repairs and maintenance		10,092
Utilities		4,047
Gas and oil		14,049
Tires		1,127
Parts and supplies		11,276
Insurance		6,919
Cost of water and sewer treatment	503,020	
Water installation costs	12,555	
Sewer inspection costs	2,659	
Water transmission	28,948	
Sewer system maintenance	28,173	
Sewer pump station maintenance	58,800	
Water maintenance service	10,209	
General & administrative expenses	55,352	
Depreciation and amortization	434,343	46,989
Professional fees	3,115	800
Miscellaneous	1,692	
Total operating expenses	\$ 1,138,866	\$ 115,118
Operating income (loss)	\$ (370,160)	\$ (20,872)
Nonoperating revenues (expenses):		
Property taxes	1,062,107	
Capital charges	34,662	
Interest income	135,698	1,388
Debt service charge	339,811	
Interest expense	(583,401)	
Gain on sale of assets		3,778
Reserve for operations	(15,322)	
Total nonoperating revenues (expenses)	\$ 973,555	\$ 5,166
Change in net assets	\$ 603,395	\$ (15,706)
Net assets - July 1, 2003 (restated)	7,089,497	240,632
Net assets - June 30, 2004	\$ 7,692,892	\$ 224,926

The attached notes are an integral part of the financial statements.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

JUNE 30, 2004

	Business-type Activity Water and Sewer Fund	Governmental Activity- Internal Service Fund
Cash flows from operating activities:		
Receipts from customers	\$ 1,060,007	\$ 92,108
Payments to suppliers	(754,191)	(70,241)
Net cash provided (used) by operating activities	\$ 305,816	\$ 21,867
Cash flows from capital and related financing activities:		
Collection of customer capital charges	34,662	
Collection of property taxes	1,062,107	
Collection of debt service charge	339,811	
Purchase of fixed assets		(85,874)
Proceeds from sale of assets		7,503
Proceeds from issuance of debt	2,770,000	
Principal paid on capital debt	(3,852,702)	
Interest paid on capital debt	(583,401)	
Increase in bond issuance costs	(129,515)	
Reserve for operations	(15,322)	
Net cash provided (used) by capital and related financing activities	\$ (374,360)	\$ (78,371)
Cash flows from investing activities:		
Interest income	135,698	1,388
Net increase (decrease) in cash and cash equivalents	\$ 67,154	\$ (55,116)
Cash and cash equivalents - July 1, 2003	1,706,116	176,640
Cash and cash equivalents - June 30, 2004	\$ 1,773,270	\$ 121,524
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (370,160)	\$ (20,872)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	434,343	46,989
Changes in assets and liabilities:		
(Increase) decrease in receivables	291,301	(2,137)
(Increase) decrease in due from other funds	4,561	(2,438)
(Increase) decrease in due from other governments	34,995	
Increase (decrease) in accounts payable and other liabilities	(69,326)	325
Increase (decrease) in accrued interest	(22,489)	
Increase (decrease) in due to other funds	2,591	
Net cash provided (used) by operating activities	\$ 305,816	\$ 21,867

The attached notes are an integral part of the financial statements.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUNDS

JUNE 30, 2004

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 238,524
Total assets.	<u>\$ 238,524</u>
LIABILITIES	
Deposits payable and other liabilities.	\$ 238,351
Due to other funds.	<u>172</u>
Total liabilities	<u>\$ 238,524</u>

JANE G. KNIGHT, P.L.C. - CERTIFIED PUBLIC ACCOUNTANTS

The attached notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A - Summary of Significant Accounting Policies

The accounting policies of the City of Orchard Lake Village (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Orchard Lake Village.

Reporting Entity

The City of Orchard Lake Village is governed by an elected seven-member Council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

Government-Wide and Fund Financial Statements

During the year the City adopted Governmental Accounting Standards Board (GASB) Statement No. 34, which substantially revised the financial statement presentation as described below.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual--that is, when they become both measurable and available to finance expenditures of the period. Property taxes, state-shared revenue, interest, reimbursement grants, and charges for services are considered to be susceptible to accrual and so have been recognized as revenue of the current period. All other revenue items are considered to be available only when cash is received by the government.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE A - Summary of Significant Accounting Policies (continued)

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Governmental Funds:

The City reports the following major governmental funds:

General Fund

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be account for in another fund.

Major Road Fund

The Major Road Fund accounts for the construction, maintenance, and repairs of all streets classified as "major roads" within the City. Financing is provided primarily by State-shared gas and weight taxes and local contributions. The fund is operated under the provisions of Michigan's Act 51 of the Public Acts of 1951, as amended.

Local Road Fund

The Local Road Fund accounts for the construction, maintenance, and repairs of all streets classified as "local roads" within the City. Financing is provided primarily by State-shared gas and weight taxes and local contributions. The fund is operated under the provisions of Michigan's Act 51 of the Public Acts of 1951, as amended.

Debt Service Funds

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Additionally, the City reports the following fund types:

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Funds

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds and Trust funds).

Propriety Fund

The City reports the following major proprietary fund:

Water and Sewer Fund

The Water and Sewer Fund accounts for the operation, maintenance and distribution of the water and sewage systems administered by Oakland County.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Water and Sewer Fund relates to charges to customers for sales and services. The Water and Sewer Fund recognized the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as nonoperating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE A - Summary of Significant Accounting Policies (continued)

Internal Service Fund

The City's only internal service fund is the Motor Pool Fund. This fund accounts for the costs of maintaining automobiles and equipment used by various City departments. Costs are billed to the departments for labor and materials.

Fiduciary Funds

Agency Funds

Agency Funds are used to account for assets held by the City as an agent for individuals, private organizations, other governments and/or other funds. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Property Taxes

The City is a Home Rule City with a fiscal year beginning July 1 and ending June 30. Summer property taxes are levied on July 1 and become a lien on that date. Summer property taxes are payable between July 1 and September 1, without penalty. Summer taxes paid between September 2 and February 28 are subject to a 4% penalty plus a 1% penalty for each month delinquent. Summer real property taxes delinquent after February 28 are purchased by Oakland County from the City. Winter property taxes are levied on December 1 and become a lien on that date. Winter property taxes are payable between December 1 and February 14 without penalty. Winter taxes paid between February 15 and February 28 are subject to a 4% penalty. Winter real property taxes delinquent after February 28 are purchased by Oakland County from the City.

The 2003 taxable valuation of the City of Orchard Lake Village total \$312,384,390, on which ad valorem taxes levied consisted of 4.50 mills for the City of Orchard Lake Village operation purposes, 4.30 mills for debt, .30 mills for library, raising \$1,405,730 for operating, \$1,343,253 for debt, and \$93,715 for library. These amounts are recognized in the respective General, Special Revenue, Debt Service, and Enterprise Fund financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments

Deposits are carried at cost and consist of cash on hand, checking accounts, and investments in mutual funds.

For purposes of the Statement of Cash Flows, the City considered cash deposits and certificates of deposits with a maturity of three months or less when purchased to be cash equivalents.

Interfund Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds" on the balance sheet. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

Receivables

All trade and property tax receivables are considered fully collectible by the City. No provision has been made in the financial statements for noncollection.

Restricted Assets

Certain revenues of the enterprise funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and improvements and replacement of the water and sewer system. These amounts have been classified as restricted net assets.

Capital Assets

Capital assets, which include land, buildings, building improvements, vehicles, machinery, equipment and infrastructure are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE A - Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Infrastructure assets are long-lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets. The City has elected not to retroactively report infrastructure assets.

Capital assets that are being depreciated are reported net of accumulated depreciation in the statement of net assets. Capital assets that are not being depreciated, such as land, are reported separately.

Capital assets are depreciated over their estimated useful lives. Depreciation expense is reported in the statement of activities by allocating the net cost over the estimated useful life of the assets.

Depreciation of all exhaustible fixed assets used by propriety fund types is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund type balance sheets. Depreciation has been provided over the estimated useful lives.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Water and Sewer System	50
Buildings and Improvements	10-50
Vehicles	3-10
Equipment (Police, Highway, Office)	3-25
Roads	20-30

Compensated Absences (Sick and Vacation Leave)

Sick and vacation pay earned are recognized in the governmental financial statements when they are paid. The long-term portion of compensated absences related to governmental funds is a liability recorded in the Statement of Net Assets.

Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the Statement of Net Assets. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds. For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and net of any deferred charges on bond refundings. Issuance costs are reported as deferred charges.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance present tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE B - Accounting and Reporting ChangesGASB 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*. The City of Orchard Lake Village has applied the provisions of this statement in the accompanying financial statements (including the notes to financial statements). The City has elected to implement the general provisions of the statement in the current year, but did not elect to retroactively report infrastructure. Certain significant changes in the statement include the following:

1. A management's discussion and analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
2. Financial statements prepared using full accrual accounting for all of the City's activities.
3. A change in the fund financial statements to focus on the major funds.
4. Capital assets at July 1, 2003 previously reported in the General Fixed Assets Account Group have been adjusted by approximately \$456,017 to reflect the historical cost of the City's capital assets at that date.
5. The governmental activities column includes bonds and other long-term obligations totaling \$2,585,000 previously reported in the General Long-Term Debt Account Group.
6. According to GASB 34 it is necessary to review current fund types to new fund types. It was determined that water and sewer debt service activity previously accounted for in the Debt Service Fund should be reported in the Water and Sewer Fund. The Water and Sewer Fund includes \$2,038,980 of net assets previously reported in the Debt Service Fund and \$13,915,871 of bond obligations previously reported in the General Long-term Debt Account Group.

NOTE C - Stewardship, Compliance, and AccountabilityBudgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General and Special Revenue Funds. All annual appropriations lapse at year end. The City's appropriation resolution is generally passed during the May preceding the fiscal year in which the planned expenditures relate. Subsequent amendments are made to avoid unfavorable variances from the original budget. Related resolutions are made to state the purpose and amount of the changes. The City Clerk has the responsibility to enforce the budget. Unused appropriations do not carry forward to the next year.

The budget document presents information by fund, function, department and line items. The legal level (the level at which expenditures may not legally exceed appropriations) of budgetary control adopted by the board is at the department (activity) level.

The City Council must approve budget amendments at the activity level and supplemental appropriations, which affect total fund expenditures. The Clerk can transfer appropriations between line items within a department or activity without governing body approval.

Supplemental appropriations were necessary during the year, which increased total expenditures.

Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

P.A. 2 of 1968 as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated in budget resolutions of the governing body.

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year, the City of Orchard Lake Village incurred expenditures in certain budgeted funds which were significantly in excess of the amounts appropriated, as follows:

Fund	Activity	Amended Budget	Actual Expenditure	Budget Variance
General	Public Works Department	\$105,331	\$ 117,520	\$ 12,189
General	Tri-Party Project	22,000	165,354	143,354
General	Pontiac Trail tree replace program	500	6,951	6,451
OLSA Fund	Weed harvesting	21,000	25,026	4,026

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE C - Stewardship, Compliance, and Accountability (continued)Fund Deficit

At June 30, 2004, the City has a deficit of \$21,972 in the Pelletier Paving Special Assessment Capital Project Fund as the result of special assessment bonding (financing) not being used to fund the projects. When the special assessment receivable is collected in ensuing years, revenue will be recognized and the deficits will be eliminated.

NOTE D - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City has designated various banks for the deposit of City funds. The treasurer keeps a list of approved banks. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts and CDs, repurchase agreements, investment pools organized under the local government investment pool act, commercial paper rated within the two highest classifications, and bankers' acceptance of United States banks, but not the remainder of State statutory authority as listed above.

The City of Orchard Lake Village's deposits and investment policy are in accordance with statutory authority and the investment policy of the City. At the end of the year, the carrying amount of the City's deposits were \$3,626,782 (reconciled), the unreconciled bank balance was \$3,651,159, of the deposits \$200,000 was covered by federal depository insurance. Cash deposits are not collateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

During the period of tax collection (July-February), cash deposits held by the City may significantly exceed the amounts as of the balance sheet date.

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and cash equivalents	\$ 1,925,483	\$ 1,773,270	\$ 238,524	\$ 3,937,277

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 3,626,782
Investments in Securities, Mutual Funds and Similar Vehicles	310,295
Petty Cash and Cash on Hand	200
Total	\$ 3,937,277

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. Investments are categorized into these categories of credit risk:

1. Insured or registered, or securities held by the City or its agent in the City's name;
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and
3. Uninsured and unregistered, with securities held by the counterparty or by its trust department of agent but not in the City's name.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE D - Deposits and Investments (continued)

At year-end, the government's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary Government:				
U.S. Government Securities	\$	\$	\$	\$
Commercial Paper				
Repurchase Agreements				
Subtotal	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Investment Not Subject to Categorization:				
Mutual Funds				<u>310,295</u>
Total Primary Government				<u>\$ 310,295</u>

The mutual funds are not categorized because they are not evidenced by securities that are in physical or book entry form. Management believes that the investments of the City comply with the investment authority as noted above, and the investment policy of the City.

JANZ B. KNIGHT, P.A., CERTIFIED PUBLIC ACCOUNTANT

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE E - Capital Assets

Capital asset activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 5,145,717	\$	\$	\$ 5,145,717
Construction in progress - roads		40,549		40,549
Subtotal	\$ 5,145,717	\$ 40,549	\$	\$ 5,186,266
Capital assets being depreciated:				
Buildings and improvements	\$ 775,958	\$ 7,815	\$	\$ 783,773
Highway equipment	65,676			65,676
General equipment	53,944	19,366		73,310
Police equipment	54,242	4,274		58,516
Vehicles	234,171	81,600		315,771
Subtotal	\$ 1,183,991	\$ 113,055	\$	\$ 1,297,046
Less accumulated depreciation for:				
Buildings and improvements	\$ 335,019	\$ 15,885	\$	\$ 350,904
Highway equipment	60,863	1,888		62,751
General equipment	28,123	6,686		34,809
Police equipment	49,339	2,323		51,662
Vehicles	186,990	42,779		229,769
Subtotal	\$ 660,334	\$ 69,561	\$	\$ 729,895
Net capital assets being depreciated	\$ 523,657	\$ 43,494	\$	\$ 567,151
Net capital assets	\$ 5,669,374	\$ 84,043	\$	\$ 5,753,417
Business-type activities:				
Capital assets being depreciated:				
Sewer system	\$14,827,025	\$	\$	\$14,827,025
Water system	6,500,000			6,500,000
Subtotal	\$21,327,025	\$	\$	\$21,327,025
Less accumulated depreciation for:				
Sewer system	\$ 2,248,765	\$ 296,541	\$	\$ 2,545,306
Water system	985,833	130,000		1,115,833
Subtotal	\$ 3,234,598	\$ 426,541	\$	\$ 3,661,139
Net capital assets being depreciated	\$18,092,427	\$ (426,541)	\$	\$17,665,886
Net capital assets	\$18,092,427	\$ (426,541)	\$	\$17,665,886

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE E - Capital Assets (continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 19,943
Public safety	21,402
Public works	27,426
Recreation and culture	<u>790</u>
Total governmental activities	<u>\$ 69,561</u>
Business-type activities:	
Water and sewer	<u>\$434,343</u>

Construction Commitments

The City has active construction projects at year-end. The projects include paving of roads. At year-end the City's commitments with contracts are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Roads	<u>\$ 40,549</u>	<u>\$ 187,451</u>

NOTE F - Interfund Receivables, Payables and Transfers

The following are the interfund receivables at June 30, 2004:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Debt Service	\$ 1,627
	Major Road	458
	Local Road	3,049
	OLSA	7,339
	Building	21,405
	Drug Forfeiture	289
	Capital Projects	23,000
	Water & Sewer Fund	2,591
	Trust & Agency	172
	Pelletier Paving	<u>21,840</u>
	Total General Fund	\$81,770
Local Road Fund	Pelletier Paving	132
Library Fund	General Fund	114
Motor Pool Fund	General Fund	5,566
	Major Road	145
	Local Road	<u>2,057</u>
	Total Motor Pool	<u>\$ 7,768</u>
	Total interfund receivable	<u>\$89,784</u>

These balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE F - Interfund Receivables, Payables and Transfers (continued)

Interfund Transfers

<u>Transfer in</u>	<u>Transfers (Out)</u>				<u>Total</u>
	<u>Municipal Fund</u>	<u>Capital Improvement</u>	<u>General Fund</u>	<u>Major Road</u>	
General Fund	\$ 54,893	\$ 23,000	\$	\$	\$ 77,893
Local Road			78,000	25,500	103,500
Total	<u>\$ 54,893</u>	<u>\$ 23,000</u>	<u>\$78,000</u>	<u>\$25,500</u>	<u>\$181,393</u>

In the year ended June 30, 2004, the City made a one-time transfer of \$23,000 from the Capital Improvement Fund to the General Fund to subsidize expenditures.

Transfers from the Major Road Fund to the Local Road Fund is allowable under Act 51.

Transfer from General Fund to Local Road Fund is to subsidize the future costs of road improvements.

A transfer from the Municipal Street Fund to the General Fund was made to close the fund.

NOTE G - Long-Term Debt

The following is a summary of general long-term debt of the City for the year ended June 30, 2004:

	<u>General Obligation</u>	<u>Compensated Absences</u>	<u>Total</u>
Balance at July 1, 2003	\$2,750,000	\$ 137,277	\$2,887,277
Principal retirements	(165,000)		(165,000)
Increase in obligation for compensate absences		8,731	8,731
Balance at June 30, 2004	<u>\$2,585,000</u>	<u>\$ 146,008</u>	<u>\$2,731,008</u>

The following is a summary of long-term debt transactions of the City's Enterprise Fund for the year ended June 30, 2004:

	<u>General Obligation Bonds</u>
Balance at July 1, 2003	\$14,997,975
Long-term debt issued	2,770,000
Long-term debt defeasance	(2,640,000)
Principal retirement	(1,212,104)
Balance at June 30, 2004	<u>\$13,915,871</u>

General Long-Term Debt - Bonds Payable

On February 12, 1992, general obligation bonds in the amount of \$3,450,000 were sold for the purpose of acquiring the Nature Sanctuary property. As noted below there was a defeasance of \$2,755,000 of this debt during 1998.

On April 23, 1998, general obligation bonds in the amount of \$2,985,000 were sold for the purpose of retiring \$2,755,000 of the Nature Sanctuary debt detailed above. The advance refunding met the requirements of an in-substance debt defeasance and the general obligations were removed from the City's General Long-Term Debt Account Group.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE G - Long-Term Debt (continued)

General Long-Term Debt - Bonds Payable (continued)

As a result of the advance refunding, the City reduced its total debt service requirements by \$447,742, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$298,766. Schedule of principal and interest payments are as follows:

Year	Due November 1			Due May 1	
	Principal	Interest	Total	Interest	
2004	\$ 200,000	\$ 58,911	\$ 258,911	\$	
2005	220,000	54,611	274,611	54,611	
2006	260,000	49,771	309,771	49,771	
2007	295,000	43,921	338,921	43,921	
2008	335,000	37,284	372,284	37,284	
2009	385,000	29,663	414,663	29,663	
2010	430,000	20,808	450,808	20,808	
2011	460,000	10,810	470,810	10,810	
	<u>\$2,585,000</u>	<u>\$ 305,779</u>	<u>\$2,890,779</u>	<u>\$ 246,868</u>	

The bonds bear interest at a rate of 3.75% to 4.7%.

Compensated Absences

Accumulated vacation and sick leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts accumulated that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts.

Enterprise Fund - Bonds Payable

Bonds payable at June 30, 2004 are comprised of the following individual issues:

Pursuant to an election held November 7, 1989 the electorate of the City authorized the issuance of bonds in an amount not to exceed \$9,300,000 for the purpose of defraying part of the cost of acquiring and constructing a sanitary sewage collection and disposal system. Taxes imposed by the City are not subject to limitation as to rate or amount pursuant to the November 7, 1989 election.

On October 17, 1990, bonds in the amount of \$2,135,000 were sold at public sale by the County of Oakland Sewage Disposal - City of Orchard Lake Village System. These bonds are part of the \$9,300,000 voter approved authorization. As noted below there was a defeasance of \$1,650,000 of this debt during 1999.

On April 12, 1994, sewage disposal bonds in the amount of \$5,065,000 were sold by the County of Oakland Sewage Disposal - City of Orchard Lake Village System. These bonds are part of the \$9,300,000 voter approved authorization. As noted below there was a defeasance of \$3,510,000 of this debt during 1999.

On February 14, 1994 the City Council approved the borrowing of up to \$5,500,000 additional to complete the sewer construction project. On April 12, 1994, sewage disposal bonds in the amount of \$5,500,000 were sold by the County of Oakland Sewage Disposal - City of Orchard Lake Village System. As noted below there was a defeasance of \$3,945,000 of this debt during 1999.

On April 8, 1993, sewage disposal bonds in the amount of \$2,100,000 were sold by the County of Oakland Sewage Disposal - City of Orchard Lake Village System. These bonds are part of the \$9,300,000 voter approved authorization. As noted below there was a defeasance of \$1,290,000 of this debt during 2004.

On September 29, 1999, general obligation bonds in the amount of \$9,770,000 were sold by Oakland County for the purpose of retiring \$9,105,000 of the sewage disposal debt detailed above. The advance refunding met the requirements of an in-substance debt defeasance and the general obligations were removed from the City's General Long-Term Debt Account Group.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE G - Long-Term Debt (continued)

Enterprise Fund - Bonds Payable (continued)

As a result of the advance refunding, the City reduced its total debt service requirements by \$503,026, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$273,245. Schedule of principal and interest payments are as follows:

Year	Due November 1			Due May 1	
	Principal	Interest	Total	Interest	
2004	\$ 750,000	\$ 199,134	\$ 949,134	\$	
2005	795,000	182,634	977,634	182,634	
2006	820,000	164,746	984,746	164,746	
2007	870,000	145,886	1,015,886	145,886	
2008	900,000	125,441	1,025,441	125,441	
2009	955,000	103,841	1,058,841	103,841	
2010	1,015,000	80,444	1,095,444	80,444	
2011	820,000	55,069	875,069	55,069	
2012	865,000	34,364	899,364	34,364	
2013	465,000	12,090	477,090	12,090	
	<u>\$8,255,000</u>	<u>\$1,103,649</u>	<u>\$ 9,358,649</u>	<u>\$ 904,511</u>	

The bonds bear interest at a rate of 3.75% to 4.70%.

During the year ended June 30, 1992 the Oakland County Drain Commission issued Evergreen - Farmington Sewage Disposal bonds for permanent meter and interceptor rehabilitation. The City's allocated share of these bonds was \$31,545. On August 1, 2001 the County refunded this debt. As a result of this the scheduled payments between the City and County have been modified. Schedule of remaining principal and interest payments are as follows:

Year	Due May 1			Due November 1	
	Principal	Interest	Total	Interest	
2004	\$	\$	\$	\$	295
2005	2,461	295	2,756		251
2006	2,382	251	2,633		209
2007	2,303	209	2,512		165
2008	2,660	165	2,825		114
2009	2,977	113	3,090		54
2010	3,088	55	3,143		
	<u>\$ 15,871</u>	<u>\$ 1,088</u>	<u>\$ 16,959</u>	<u>\$</u>	<u>1,088</u>

The bonds bear interest at a rate of 3.5%.

Pursuant to an election held November 6, 1990 the electorate of the City authorized the issuance of bonds in an amount not to exceed \$6,000,000 for the purpose of defraying part of the cost of acquiring and constructing a water supply system. Taxes imposed by the City are not subject to limitation as to rate or amount pursuant to the November 6, 1990 election.

On April 12, 1994, water supply bonds in the amount of \$3,750,000 were sold by Oakland County. These bonds are part of the \$6,000,000 voter approved authorization. As noted below there was a defeasance of \$2,605,000 of this debt during 2003.

On May 1, 2003, general obligation bonds in the amount of \$2,770,000 were sold by Oakland County for the purpose of retiring \$2,605,000 of the water supply debt detailed above. The advance refunding met the requirements of an in-substance debt defeasance and the general obligations were removed from the City's General Long-Term Debt Account Group.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE G - Long-Term Debt (continued)

Enterprise Fund - Bonds Payable (continued)

As a result of the advance refunding, the City reduced its total debt service requirements by \$366,975, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$313,307. Schedule of principal and interest payments are as follows:

Year	Due November 1			Due May 1	
	Principal	Interest	Total	Interest	
2004	\$ 235,000	\$ 34,480	\$ 269,480	\$	
2005	240,000	32,718	272,718	32,718	
2006	245,000	30,617	275,617	30,617	
2007	250,000	28,351	278,351	28,351	
2008	255,000	25,601	280,601	25,601	
2009	265,000	22,350	287,350	22,350	
2010	275,000	18,508	293,508	18,508	
2011	280,000	14,039	294,039	14,039	
2012	285,000	9,139	294,139	9,139	
2013	210,000	3,937	213,937	3,937	
	<u>\$2,540,000</u>	<u>\$ 219,740</u>	<u>\$ 2,759,740</u>	<u>\$ 185,260</u>	

The bonds bear interest at a rate of 1.50% to 3.75%.

On February 14, 1994 the City Council approved the borrowing of up to \$500,000 additional to complete the water construction project. On April 12, 1994 water supply bonds in the amount of \$500,000 were sold by Oakland County. Schedule of principal and interest payments are as follows:

Year	Due November 1			Due May 1	
	Principal	Interest	Total	Interest	
2004	\$ 25,000	\$ 9,910	\$ 34,910	\$	
2005	25,000	9,223	34,223	9,223	
2006	30,000	8,523	38,523	8,523	
2007	30,000	7,667	37,667	7,667	
2008	30,000	6,798	36,798	6,798	
2009	35,000	5,913	40,913	5,913	
2010	35,000	4,862	39,862	4,862	
2011	40,000	3,813	43,813	3,813	
2012	40,000	2,592	42,592	2,592	
2013	45,000	1,373	46,373	1,373	
	<u>\$ 335,000</u>	<u>\$ 60,674</u>	<u>\$ 395,674</u>	<u>\$ 50,764</u>	

The bonds bear interest at a rate of 4.45% to 6.35%.

On April 8, 1993 water supply bonds in the amount of \$2,250,000 were sold by Oakland County. These bonds are part of the \$6,000,000 voter approved authorization. As noted below there was a defeasance of \$1,350,000 for debt during 2004.

On January 8, 2004, general obligation bonds in the amount of \$2,770,000 were sold by Oakland County for the purpose of retiring \$2,640,000 of the sewer and water supply debt detailed above. The advance refunding met the requirements of an in-substance debt defeasance and the general obligations were removed from the City's General Long-Term Debt Account Group.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE G - Long-Term Debt (continued)

Enterprise Fund - Bonds Payable (continued)

As a result of the advance refunding, the City reduced its total debt service requirements by \$275,578, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$246,061. Schedule of principal and interest payments are as follows:

Year	Due November 1			Due May 1	
	Principal	Interest	Total	Principal	Interest
2004	\$ 280,000	\$ 34,883	\$ 314,883		
2005	280,000	32,083	312,083		32,083
2006	285,000	29,282	314,282		29,282
2007	310,000	26,361	336,361		26,361
2008	315,000	23,106	338,106		23,106
2009	305,000	19,563	324,563		19,563
2010	330,000	15,750	345,750		15,750
2011	340,000	11,212	351,212		11,212
2012	325,000	5,687	330,687		5,687
	<u>\$2,770,000</u>	<u>\$ 197,927</u>	<u>\$ 2,967,927</u>		<u>\$ 163,045</u>

The bonds bear interest at a rate of 2.00% to 3.50%.

Summary of Long-Term Debt Requirements:

The amounts necessary to amortize the debt described above for years subsequent to June 30, 2004 (excluding compensated absences) are as follows:

Year ending June 30,	General Long-Term Debt		Enterprise Fund	
	Principal	Interest	Principal	Interest
2005	\$ 200,000	\$ 113,522	\$ 1,292,461	\$ 535,654
2006	220,000	104,382	1,342,382	490,328
2007	260,000	93,692	1,382,303	441,852
2008	295,000	81,205	1,462,660	389,542
2009	335,000	66,947	1,502,977	332,840
2010-2014	<u>1,275,000</u>	<u>92,899</u>	<u>6,933,088</u>	<u>697,530</u>
	<u>\$ 2,585,000</u>	<u>\$ 552,647</u>	<u>\$13,915,871</u>	<u>\$2,887,746</u>

NOTE H - Retirement Plans

Defined Contribution Plan:

Effective January 1, 2000, the City established a defined contribution pension plan for all new full-time police employees, administered by ICMA. A defined contribution plan provides pension benefits in return for services rendered, provides an individual account for each participant and specifies how contributions to the individual accounts are to be determined instead of specifying the amount of benefit the individual is to receive. Participants become one-hundred percent vested after seven years of service. In a defined contribution plan benefits depend solely on amounts contributed to the plan plus investment earnings. City contributions are calculated on an employee's base salary at a rate of five percent, in accordance with the terms of negotiated labor contracts. Employees may make additional voluntary contributions to the plan.

In accordance with these requirements, the City contributed \$8,734 during the current year.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE H - Retirement Plans (continued)Deferred Compensation Plan:

The City offers all City employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof of the exclusive benefit of the participants holds the custodial account for the beneficiaries of the Section 457 plan, and the assets may not be diverted to any other use. The Administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balance and activities are not reflected in the City's financial statements.

Defined Benefit Plan:

The City is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance; disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries. All City full-time employees are eligible to participate in the system. General employees and appointed officials who retire after age 60 (55 for police employees with 25 years of service) with 10 years of credited service are entitled to a retirement benefit, payable for life, equal to 2.0% of their 5-year final average compensation (FAC). Police employees are also eligible for these retirement benefits but are equal to 25% of their FAC, with a maximum benefit of 80% of FAC. Vested employees may retire after age 50 and receive reduced retirement benefits. The system also provides disability benefits to a member who becomes totally and permanently disabled while employed by the City and after acquiring 10 or more years of credited service. The service requirement is waived if the disability is from service connected causes. If a member or vested former member with 10 or more years of service dies in a non-duty related death before retirement, a monthly survivor allowance may be payable. The service requirement is waived in a duty related death. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2003.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining unit or personnel policy. The City is required to contribute at an actuarially determined rate; the current rate was 12.27% of annual covered payroll for general employees, 10.89% for police employees, 12.97% for appointed officials, and 10.88% for building official.

During the fiscal year ended June 30, 2004, the City's annual pension cost of \$87,522 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2001. The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total actuarially determined contribution requirement is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years.

The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE H - Retirement Plans (continued)

Defined Benefit Plan (continued)

Three Year Trend Information for GASB Statement No. 27:

<u>Fiscal Period Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2002	\$ 62,651	100%	\$ -0-
June 30, 2003	66,045	100%	-0-
June 30, 2004	87,522	100%	-0-

Required Supplementary Information for GASB Statement No. 27:

<u>Actuarial Valuation Date December 31,</u>	<u>Actuarial value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as of Percentage of Covered Payroll (b-a)/(c)</u>
2001	\$ 2,095,768	\$ 2,614,451	\$ 518,683	80.2%	\$654,204	79.3%
2002	2,184,984	2,685,515	500,531	81.4%	637,483	78.5%
2003	2,393,975	2,975,738	581,763	80.4%	712,503	81.7%

NOTE I - Post Employment Benefits:

The City provides hospitalization insurance coverage for employees (and their spouses) who retire under the Michigan Employees Retirement System. To qualify, the employee must retire at or after age 55 and complete at least ten (10) years of employment with the City.

The coverage for retired employees who were under the American Federation of State, County and Municipal Employees union contract is as follows. Coverage shall be provided until the retired employee attains age 65 or until he (she) becomes eligible for Medicare under the Federal Social Security Program, whichever occurs first. In addition to this, the City will contribute \$200 per employee and per spouse each month toward the supplemental coverage cost for retired employees who have become eligible for Medicare. The City's cost of coverage for a retired employee shall be limited to the required premium for such retired employee and his spouse, if any.

The coverage for retired employees who were under the Police Officers Labor Council union contract is as follows. Coverage shall be provided until the retired employee attains age 65 or until he (she) becomes eligible for Medicare under the Federal Social Security Program, whichever occurs first. Coverage shall be provided for the employee's spouse until the spouse attains age 65 or until the spouse becomes eligible for Medicare under the Federal Social Security Program, whichever occurs first, but in no case shall coverage be provided for a period longer than three (3) years from the date the employee is eligible for Medicare.

The City's cost of retiree health care benefits is recognized as an expense in the year the hospitalization insurance coverage applies to. This totaled \$7,200 for the year ended June 30, 2004 and covered three retired employees.

NOTE J - The City has an agreement with the Tri-City Fire Department for fire protection. The Tri-City Fire Department services the City of Sylvan Lake, the City of Keego Harbor and the City of Orchard Lake Village. The governing body of the Tri-City Fire Department is made up of two members from each city. The fire protection agreement is an annual agreement and can be renewed by the governing bodies of each of the cities. Any city may withdraw from this agreement as of the last day of the term, or at any time upon not less than six months notice. Each city is obligated to pay to the Tri-City Fire Department an amount equal to one-third of the total approved annual budget of the Tri-City Fire Department. As of June 30, 2004, the Tri-City Fire Department has a fund surplus with assets being accumulated for future acquisitions. As included in the General Fund statement of expenditures, during the year ended June 30, 2004, \$159,149 was paid for fire protection to the Tri-City Fire Department. Financial statements of the Tri-City Fire Department are available for review at the fire hall.

NOTE K - The City has renewed its lease agreement with the Greater West Bloomfield Historical Society to lease the old City Hall facilities for an annual amount of one dollar. The lease automatically renews unless cancelled by either party.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE L - The City has entered into a contract with Great Lakes Waste Services for refuse pickup and disposal. The length of the contract is for 36 months, effective July 1, 2003 and runs through June 30, 2006. Monthly charges will be based on residential units serviced. The monthly charge per residential unit for the first year of the contract is \$12.09, \$12.45 for the second year and \$12.83 for the third year of the contract.

NOTE M - Library Services:

The City has a contract with West Bloomfield Township Public Library to provide library services to residents of the City. Property owners of the City are assessed .3 mill for library services and the City is required to pay this amount (.3 mill) to West Bloomfield Township Public Library. The contract covers the period December 1, through November 30th of each year and is renewed automatically unless cancelled by six months written notice prior to the end of the current year period.

NOTE N - The Trust and Agency Fund cash balance is composed of the following accounts at June 30, 2004:

Building bond	\$ 80,358
Water quality improvement	20,364
Tax collection	120,645
Site plan review	<u>17,157</u>
Total cash	<u>\$238,524</u>

NOTE O - On July 1, 1981, a Motor Pool Fund was established to account for the operation of the City's automotive and highway use equipment. Equipment with a cost of \$252,181 was contributed to the Motor Pool Fund from the General Fixed Assets. Rent is charged to the General Fund and Major and Local Road Funds on a cost reimbursement basis. For the year ended June 30, 2004, the Motor Pool Fund received rental income of \$62,100 from the General Fund, \$18,086 from the Local Road Fund and \$11,230 from the Major Road Fund.

NOTE P - The City participates in an annual programming grant that Comcast Cable provides. The grant money is paid to West Bloomfield/Tri-Cities Cable Joint Venture Fund, which is under the joint ownership of four communities - the Cities of Orchard Lake Village, Keego Harbor, Sylvan Lake and the Township of West Bloomfield. The money in this fund must be used for the support of community cable programming. The fund is administered by the West Bloomfield Township accounting department. No part of this money is reflected in these financial statements.

NOTE Q - Litigation and Contingent Liabilities:

The City is defendant in various litigations. The City's attorney and management are of the opinion that any potential liability resulting from these cases, either can not be determined or should be within the insurance coverage of the City, therefore, is not reflected in the financial statements.

NOTE R - Risk Management:

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for health, dental and life claims. The City participates in the Michigan Municipal Risk Management Authority state pool for claims relating to property loss, torts, errors and omissions and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority state pool program operates as a common risk-sharing management program; state pool member premiums are aggregated and used to purchase excess insurance coverage, some of which is underwritten by the Authority.

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE 5 - Reserved Fund Balances:

Fund balances have been reserved for the following purposes:

	<u>General Fund</u>
Transportation	\$ 4,164
Nature sanctuary	<u>5,000</u>
	<u>\$ 9,164</u>

DATE OF SIGNATURE: JUNE 30, 2004 CERTIFIED PUBLIC ACCOUNTANT

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues:				
Taxes:				
Current levy - general	\$ 1,406,642	\$ 1,405,725	\$ 1,405,964	\$ 239
Interest and penalty on delinquent taxes . .	41,500	27,750	51,469	23,719
Collection fees	86,500	82,750	82,784	34
	<u>\$ 1,534,642</u>	<u>\$ 1,516,225</u>	<u>\$ 1,540,217</u>	<u>\$ 23,992</u>
Licenses and permits:				
General licenses	1,750	1,600	2,000	400
Cable T.V.	25,000	32,000	32,993	993
Lawn fertilizer fees	1,500	2,100	2,100	
Other	75	75	69	(7)
	<u>\$ 28,325</u>	<u>\$ 35,775</u>	<u>\$ 37,162</u>	<u>\$ 1,387</u>
State sources:				
Sales tax	195,000	188,000	184,740	(3,260)
Liquor licenses	2,000	2,450	2,444	(6)
SMART	1,500	3,582	3,582	
Criminal justice training	1,600	1,600	1,769	169
	<u>\$ 200,100</u>	<u>\$ 195,632</u>	<u>\$ 192,535</u>	<u>\$ (3,097)</u>
Charges for services:				
Green Vision program	12,000	21,300	21,310	10
Weed cutting	750	810	811	1
	<u>\$ 12,750</u>	<u>\$ 22,110</u>	<u>\$ 22,121</u>	<u>\$ 11</u>
Fines and forfeits:				
Fines - 48th district court	20,000	22,250	22,256	6
Parking violations	1,200	400	780	380
Other	1,500	1,300	1,828	528
	<u>\$ 22,700</u>	<u>\$ 23,950</u>	<u>\$ 24,864</u>	<u>\$ 914</u>
Interest and rentals:				
Interest on investments	25,000	17,850	17,909	59
Room rental	200	200	150	(50)
	<u>\$ 25,200</u>	<u>\$ 18,050</u>	<u>\$ 18,059</u>	<u>\$ 9</u>
Other:				
Contributions		6,950	6,950	
Reimbursements and refunds	18,000	16,000	27,202	11,202
Tri-Party reimbursements	26,833	26,833	88,434	61,601
Miscellaneous	2,300	3,200	3,394	194
	<u>\$ 47,133</u>	<u>\$ 52,983</u>	<u>\$ 125,981</u>	<u>\$ 72,998</u>
Total revenues	\$ 1,870,850	\$ 1,864,725	\$ 1,960,939	\$ 96,214

JANE B. KNIGHT, P.L.C., CERTIFIED PUBLIC ACCOUNTANTS

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (CONTINUED)

For the Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Expenditures:				
General government:				
Elections:				
Fees and per diem.	\$ 1,000	\$ 475	\$ 473	\$ 2
Supplies	2,500	2,000	1,318	682
Legal notices.	900	600	318	282
	<u>\$ 4,400</u>	<u>\$ 3,075</u>	<u>\$ 2,109</u>	<u>\$ 966</u>
Assessing:				
Assessor and assistant	40,000	41,000	41,263	(263)
Supplies	2,500	3,000	3,071	(71)
Data processing and personal property assessing	5,500	6,000	4,655	1,345
	<u>\$ 48,000</u>	<u>\$ 50,000</u>	<u>\$ 48,988</u>	<u>\$ 1,012</u>
Legal fees	60,400	57,400	59,800	(2,400)
Clerk:				
Salaries	138,950	141,600	139,854	1,746
Postage.	7,800	6,500	6,470	30
Office supplies and equipment.	8,150	7,550	6,952	598
Printing	5,000	3,000	2,462	538
Legal notices.	3,750	3,200	3,395	(195)
Miscellaneous.	1,825	2,125	4,384	(2,259)
	<u>\$ 165,475</u>	<u>\$ 163,975</u>	<u>\$ 163,516</u>	<u>\$ 459</u>
Audit:				
Audit fees	6,200	6,200	6,200	
Consultations.	10,000	10,000	1,330	8,670
	<u>\$ 16,200</u>	<u>\$ 16,200</u>	<u>\$ 7,530</u>	<u>\$ 8,670</u>
City Hall and grounds:				
Telephone.	4,800	4,800	3,128	1,672
Utilities.	8,480	7,950	7,310	640
Custodial and cleaning supplies.	5,550	5,550	5,268	282
Repairs and maintenance.	16,000	22,500	20,519	1,981
Administrative	10,500	10,750	10,838	(88)
	<u>\$ 45,330</u>	<u>\$ 51,550</u>	<u>\$ 47,063</u>	<u>\$ 4,487</u>
Total general government	\$ 339,805	\$ 342,200	\$ 329,006	\$ 13,194

JANE G. KNIGHT, S.C.P., CERTIFIED PUBLIC ACCOUNTANTS

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (CONTINUED)

For the Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Expenditures (continued):				
Public safety:				
Police department:				
Salaries	497,642	498,662	495,008	3,654
Clerical	29,615	29,615	29,614	1
Court expenses	500	200	45	155
Police supplies	900	950	952	(2)
Uniform allowance	8,800	8,800	8,800	
Equipment rental	34,200	34,200	34,200	
Maintenance and repairs - radios	500	500	264	236
Weapons training	4,800	4,800	4,800	
Office supplies and L.E.I.N.	6,600	9,700	9,900	(200)
Dispatch	47,135	47,135	48,482	(1,347)
Criminal justice training	11,600	6,400	3,710	2,690
Miscellaneous and tuition	1,100	500	2,217	(1,717)
	<u>\$ 645,392</u>	<u>\$ 641,462</u>	<u>\$ 637,992</u>	<u>\$ 3,470</u>
Fire protection (Tri-City Fire Department):				
Fire protection agreement (Note J)	159,300	159,150	159,149	1
Total public safety	<u>\$ 804,692</u>	<u>\$ 800,612</u>	<u>\$ 797,141</u>	<u>\$ 3,471</u>
Community and economic development:				
Planning Commission:				
Planner fees	8,000	7,500	4,925	2,575
Clerical wages	1,500	1,500	1,482	18
Supplies and notices	500	500	325	175
	<u>\$ 10,000</u>	<u>\$ 9,500</u>	<u>\$ 6,732</u>	<u>\$ 2,768</u>
Environmental consultant	5,000	2,500	1,230	1,271
Total community and economic development	<u>\$ 15,000</u>	<u>\$ 12,000</u>	<u>\$ 7,962</u>	<u>\$ 4,038</u>
Public works:				
Public works department:				
Salaries and wages	71,350	70,600	81,530	(10,930)
Equipment rental	27,900	27,900	27,900	
Garage supplies	4,000	3,200	2,898	302
Uniform allowance	1,300	1,300	1,300	
Miscellaneous	3,481	2,331	3,892	(1,561)
	<u>\$ 108,031</u>	<u>\$ 105,331</u>	<u>\$ 117,520</u>	<u>\$ (12,189)</u>
Engineering fees	5,000	8,500	9,241	(741)

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (CONTINUED)

For the Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Expenditures (continued):				
Public works (continued):				
Green Vision program	12,000	23,050	24,156	(1,106)
Pontiac Trail tree replacement program	500	500	6,951	(6,451)
Tri-Party project	22,000	22,000	165,354	(143,354)
Street lighting	2,600	2,600	2,489	111
Refuge collection & No HAZ	104,700	110,800	110,140	660
Total public works	\$ 254,831	\$ 272,781	\$ 435,851	\$ (163,070)
Culture and recreation - sanctuary	13,500	19,500	16,184	3,316
Other:				
Payroll taxes	63,000	63,000	62,012	988
Insurance	64,000	60,000	55,674	4,326
Hospitalization insurance	154,350	154,350	151,233	3,117
Dental insurance	13,000	13,500	11,886	1,614
Optical insurance	3,000	3,800	4,165	(365)
Group insurance	14,000	14,500	14,254	246
Retirement plan	65,000	82,000	84,140	(2,140)
	\$ 376,350	\$ 391,150	\$ 383,363	\$ 7,787
Capital outlay - City Hall and grounds	15,000	22,500	24,447	(1,947)
Total expenditures	\$ 1,819,178	\$ 1,860,743	\$ 1,993,953	\$ (133,210)
Excess of revenues over (under) expenditures	\$ 51,672	\$ 3,982	\$ (33,015)	\$ (36,997)
Other financing sources (uses):				
Operating transfers in	3,500	26,500	77,893	51,393
Operating transfer out	(78,000)	(78,000)	(78,000)	
Total other financing sources (uses)	\$ (74,500)	\$ (51,500)	\$ (108)	\$ 51,393
Excess of revenues and other sources over (under) expenditures and other uses	\$ (22,828)	\$ (47,518)	\$ (33,122)	\$ 14,396
Fund balance - July 1, 2003	1,027,434	1,027,434	1,027,434	
Fund balance - June 30, 2004	\$ 1,004,606	\$ 979,916	\$ 994,312	\$ 14,396

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

BUDGETARY COMPARISON SCHEDULE
MAJOR ROAD FUND

For the Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues:				
State sources - Public Act 51	\$ 80,000	\$ 86,600	\$ 86,632	\$ 32
Interest on investments	2,000	1,300	1,306	6
Total revenues	\$ 82,000	\$ 87,900	\$ 87,938	\$ 38
Expenditures:				
Salaries and wages	16,000	9,000	8,911	89
Routine purchases	16,000	14,500	12,948	1,552
Purchased services	9,000	5,000	3,912	1,088
Audit fees	500	500	500	
Equipment rental	15,000	14,000	11,230	2,770
Reserve for future expenses		19,400		19,400
Total expenditures	\$ 56,500	\$ 62,400	\$ 37,501	\$ 24,899
Excess of revenues over (under) expenditures	\$ 25,500	\$ 25,500	\$ 50,437	\$ 24,937
Other financing uses:				
Transfer to Local Road Fund	25,500	25,500	25,500	
Excess of revenues over expenditures other uses	\$	\$	\$ 24,937	\$ 24,937
Fund balance - July 1, 2003	125,171	125,171	125,171	
Fund balance - June 30, 2004	\$ 125,171	\$ 125,171	\$ 150,108	\$ 24,937

JANE & KNIGHT, P.L.L.C. CERTIFIED PUBLIC ACCOUNTANTS

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

BUDGETARY COMPARISON SCHEDULE
LOCAL ROAD FUND

For the Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues:				
State sources:				
Public Act 51	\$ 55,000	\$ 59,500	\$ 59,983	\$ 483
Metro Authority		6,300	6,338	38
Interest on investments	500	650	671	21
Other			1,212	1,212
Total revenues	\$ 55,500	\$ 66,450	\$ 68,204	\$ 1,754
Expenditures:				
Salaries and wages	19,500	18,000	16,431	1,569
Routine purchases	19,500	16,000	14,534	1,466
Purchased services	75,000	41,650	41,798	(148)
Audit fees	500	500	500	
Equipment rental	21,500	19,500	18,086	1,414
Reserve for future expenses	23,500	74,300		74,300
Total expenditures	\$ 159,500	\$ 169,950	\$ 91,349	\$ 78,601
Excess of revenues over (under) expenditures	\$ (104,000)	\$ (103,500)	\$ (23,145)	\$ 80,356
Other financing sources:				
Transfer from General Fund	78,500	78,000	78,000	
Transfer from Major Road Fund	25,500	25,500	25,500	
Total other financing sources	\$ 104,000	\$ 103,500	\$ 103,500	\$
Excess of revenues and other sources over expenditures	\$	\$	\$ 80,356	\$ 80,356
Fund balance - July 1, 2003	77,801	77,801	77,801	
Fund balance - June 30, 2004	\$ 77,801	\$ 77,801	\$ 158,157	\$ 80,356

OTHER SUPPLEMENTAL INFORMATION

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2004

	Special Revenue Funds	Capital Project Fund Pelletier Paving	Total Non-Major Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 565,865	\$ 19,600	\$ 585,465
Due from other funds	114		114
Total assets	<u>\$ 565,979</u>	<u>\$ 19,600</u>	<u>\$ 585,579</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 2,753	\$	\$ 2,753
Deposit payable		19,600	19,600
Due to other funds	52,034	21,972	74,006
Due to other governments	18,761		18,761
Total liabilities	\$ 73,547	\$ 41,572	\$ 115,119
Fund balance - unreserved	492,431	(21,972)	470,459
Total liabilities and fund balance	<u>\$ 565,979</u>	<u>\$ 19,600</u>	<u>\$ 585,579</u>

JANZ & KNIGHT, P.L.C. - CERTIFIED PUBLIC ACCOUNTANTS

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 SPECIAL REVENUE FUNDS
 JUNE 30, 2004

	Municipal Street Planning	Building Fund	Drug Forfeiture Fund	Library Fund
ASSETS				
Cash and cash equivalents	\$	\$ 32,204	\$ 289	\$ 19,392
Due from other funds.				114
Total assets.	<u>\$</u>	<u>\$ 32,204</u>	<u>\$ 289</u>	<u>\$ 19,505</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable.	\$	\$ 2,753	\$	\$
Due to other funds.		21,405	289	
Due to other governments.				18,761
Total liabilities	\$	\$ 24,158	\$ 289	\$ 18,761
Fund balances - unreserved.		8,046	-	744
Total liabilities and fund balances . . .	<u>\$</u>	<u>\$ 32,204</u>	<u>\$ 289</u>	<u>\$ 19,505</u>

Capital Improvement Fund	Community Development Grant Fund	OLSA Fund	Total Non-major Special Revenue Funds
\$ 488,799	\$	\$ 25,181	\$ 565,865
			114
<u>\$ 488,799</u>	<u>\$</u>	<u>\$ 25,181</u>	<u>\$ 565,979</u>

\$		\$	\$ 2,753
23,000		7,339	52,034
			18,761
<u>\$ 23,000</u>	<u>\$</u>	<u>\$ 7,339</u>	<u>\$ 73,547</u>
<u>465,799</u>		<u>17,842</u>	<u>492,431</u>
<u>\$ 488,799</u>	<u>\$</u>	<u>\$ 25,181</u>	<u>565,979</u>

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2004

	Special Revenue Funds	Capital Project Funds Pelletier Paving	Total Non-Major Governmental Funds
Revenues:			
Taxes	\$ 93,715	\$	\$ 93,715
Licenses and permits	93,996		93,996
Federal sources	8,000		8,000
Interest	5,220		5,220
Other	29,734		29,734
Total revenues	\$ 230,666	\$	\$ 230,666
Expenditures:			
Public safety	150,491		150,491
Public works	26,998	21,972	48,970
Health and welfare	8,000		8,000
Culture and recreation	93,715		93,715
Total expenditures	\$ 279,204	\$ 21,972	\$ 301,176
Excess of revenues over (under) expenditures	\$ (48,538)	\$ (21,972)	\$ (70,510)
Other financing uses:			
Transfer to General Fund	(77,893)		(77,893)
Excess of revenues over (under) expenditures and other financing uses	\$ (126,430)	\$ (21,972)	\$ (148,403)
& Fund balance - July 1, 2003	618,862		618,862
Fund balance - June 30, 2004	\$ 492,431	\$ (21,972)	\$ 470,459

JANZ & KNIGHT, P.L.C. - CERTIFIED PUBLIC ACCOUNTANTS

CITY OF ORCHARD LAKE VILLAGE, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS
NON-MAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2004

	Municipal Street Planning	Building Fund	Drug Forfeiture Fund	Library Fund
Revenues:				
Taxes	\$	\$	\$	\$ 93,715
Licenses and permits		93,996		
Federal sources				
Interest	350	104	2	157
Other				
Total revenues	\$ 350	\$ 94,100	\$ 2	\$ 93,873
Expenditures:				
Public safety		143,673		
Public works	300		397	
Health and welfare				
Culture and recreation				93,715
Total expenditures	\$ 300	\$ 143,673	\$ 397	\$ 93,715
Excess of revenues over (under) expenditures	\$ 50	\$ (49,573)	\$ (396)	\$ 157
Other financing uses:				
Transfer to General Fund	(54,893)			
Excess of revenues over (under) expenditures and other financing uses	\$ (54,843)	\$ (49,573)	\$ (396)	\$ 157
Fund balance - July 1, 2003	54,843	57,618	396	587
Fund balance - June 30, 2004	\$	\$ 8,046	\$ -	\$ 744

Capital Improvement Fund	Community Development Grant Fund	OLSA Fund	Total Non-major Special Revenue Funds
\$	\$	\$	\$ 93,715
	8,000		93,996
4,469		139	8,000
		29,734	5,220
			29,734
\$ 4,469	\$ 8,000	\$ 29,873	\$ 230,666
		6,818	150,491
300		26,001	26,998
	8,000		8,000
			93,715
\$ 300	\$ 8,000	\$ 32,818	\$ 279,204
\$ 4,169	\$ -	\$ (2,946)	\$ (48,538)
(23,000)			(77,893)
\$ (18,831)	\$	\$ (2,946)	\$ (126,430)
484,630		20,788	618,862
\$ 465,799	\$	\$ 17,842	\$ 492,431

JANZ & KNIGHT, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

January 28, 2005

The City Council
City of Orchard Lake Village, Michigan

Dear Members of the City Council:

In planning and performing our audit of the general purpose financial statements of the City of Orchard Lake Village, Michigan for the year ended June 30, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the City of Orchard Lake Village, Michigan's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

Reportable Conditions:

The adoption of the Michigan Uniform Local Budgeting Act (Act No. 621, Public Acts of 1978) has made it mandatory that balanced budgets be adopted and that those budgets be amended before expenditures exceed the budgeted amounts. We noted that the budget was amended during the fiscal year in an attempt to comply with the budget requirements. Despite the amendments, expenditures significantly exceeded budgeted amounts in the following areas:

<u>Fund</u>	<u>Activity</u>	<u>Amended Budget</u>	<u>Actual Expenditure</u>	<u>Budget Variance</u>
General	Public Works Department	\$105,331	\$ 117,520	\$ 12,189
General	Tri-Party Project	22,000	165,354	143,354
General	Pontiac Trail tree replacement program	500	6,951	6,451
OLSA Fund	Weed harvesting	21,000	25,026	4,026

We recommend that the budget be reviewed on a regular basis. The Budget Act requires budget amendments before any expenditures exceed the budget.

Other Comments and Recommendations:

We recommend that all refund and reimbursement revenue be recorded as revenue and not netted against expenditures. This better reflects the activity of the City.

We would like to thank the Council for the opportunity to serve as auditors for the City, and to express our appreciation for the courtesy and cooperation extended to our staff during the course of our audit.

This report is intended solely for the information and use of the City Council, management, and others within the administration. However, this report is a matter of public record, and its distribution is not limited. We would be pleased to discuss the above items with the Council and to assist in the implementation of the recommendations.

Very truly yours,

Janz & Knight, P.C.

Certified Public Accountants